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PwC Sees Confidence among Asia-Pacific CEOs on the Rise, Investment Boom to Continue in 2014



Rapid urbanisation, the expanding middle-class and a burgeoning demand for infrastructure look set to generate new sources of growth to bolster the confidence of CEOs in the Asia-Pacific region this year, reversing last year's negative trend, when economic disruption damped global growth, a PwC study showed.

Forty-two percent of executives in Asia Pacific surveyed by PwC said they are 'very confident' in revenue growth for their company over the next 12 months, significantly more than in 2012 (36%). Despite signs of an economic slowdown and capital outflows, the study found that 68% are planning to increase their investments next year.

Longer-term, 52% say they are confident of growth over the next three to five years, in line with that of 2012.

Sira Intarakumthornchai, CEO of PwC Thailand, revealed the results of PwC's 2013 APEC CEO Survey, saying that Asia-Pacific economies have shown remarkable resilience in the face of global disruptions over the past five years.

"Business leaders are bracing for a major transformation within the Asia-Pacific region, driven by a gradual but steady rise in income and economic opportunity for millions of people," Sira said.

"That said, inconsistent regulations and standards, together with unbalanced trade and investment barriers in different economies, will remain key challenges to companies' growth over the long term."

The study entitled, 'Towards resilience and growth: Asia-Pacific business in transition', surveyed 478 business leaders on their attitudes towards doing business in the region. As in previous years, it was released at a meeting of the Asia-Pacific Economic Cooperation (APEC), this year being held in Bali, Indonesia.

According to the survey, China (35%) and the US (35%) were CEOs' dominant targets for investment over the next three to five years. Resource-abundant nations, including Australia (29%), New Zealand (26%), Indonesia (15%) and Asian services capitals like Hong Kong (15%) and Japan (14%) were among the top destinations for investment.

Dennis Nally, Chairman of PricewaterhouseCoopers International Ltd., warned, however, that the region will probably have a harder time preserving growth, given the volatility in financial markets and a slow recovery in advanced nations going forward.

"While overall confidence in growth in Asia Pacific remains undiminished, APEC economies now also face many of the uncertainties of slower growth, previously limited to the more developed markets," Nally said.

'Dark horse' tips in Asia Pacific

In the survey, executives were also asked to identify their 'dark horse' pick—an Asia-Pacific economy that could surprise with more business opportunity than is currently expected.

Resource-rich Indonesia leads the pack, with 19% of executives saying that the country, which enjoys the benefits of a skilled labour force, growing economic activity and the consolidation of democracy, would offer attractive investment opportunities.

This is followed by Myanmar (11%), China (8%), the Philippines (7%), and Vietnam (7%), thanks largely to expanding middle classes, ample natural resources, increasing transparency, infrastructure improvement plans and political stability.

Looking at the need to develop infrastructure in Asia Pacific, Sira said the region has been under-investing in these assets. The Asian Development Bank (ADB) has estimated that the region needs to invest about USD8 trillion in infrastructure between 2010 and 2020 to maintain economic growth rates.

“Mature economies, like Australia, the US and Japan, face demands as existing infrastructure starts to age and needs upgrading. Asia, however, has what we called an infrastructure deficit,” Sira said.

“The issue here is that economic growth has been running at a faster speed than new investment in infrastructure, and many parts of Asia are now faced with gridlocked roads, clogged ports, unreliable power etc. So, to keep up with growth, we can’t rely only on public financing but must also seek funding from the community of private investors.”

In other findings:

- Nearly 90% of Asia-Pacific CEOs say their growth strategies are influenced by the growing market of middle-income consumers. And nearly half of investment increases are focused on new products, services and distribution—growth areas for serving the expanding middle class.
- Developing broadband networks and urban transport will bolster economic growth, as will changes in regulatory and legal barriers and trade infrastructure.
- Regulatory consistency across the region could unleash additional investment. One-fifth of CEOs say that if rules concerning intellectual property, corporate governance and services are harmonised they are ‘highly likely’ to invest more.
- The multiple trade discussions among APEC economies is welcomed by about 70% of regional CEOs, but 22% also see them leading to more uncertainty and administrative costs.
- While CEOs adjust their companies to stay relevant in a transitioning Asia Pacific, there are pressures within the organisation. R&D and HR operations are seen as among the least prepared, while customer service and marketing are two of the top areas flagged for strategic-redirection.

“Any acceleration in the progress of trade negotiations in the future would also unleash an even greater wave of new investment and help secure CEO confidence in the region,” said Sira.

“But while investment prospects are looking positive across Asia Pacific, there are growing needs for executives and other personnel with technical and managerial skills as CEOs set growth plans in the region.”